

# ICPS newsletter

## Government paves the way for creating effective democratic and market institutions

*The government's Action Plan titled "Reforms for Prosperity" was adopted by the Verkhovna Rada of Ukraine one year ago. Last week, a public discussion of results of Cabinet of Ministers activity over the previous twelve months was held. In general, government activity is evaluated on the basis of overall economic and social measures, though these indicators are interdependent on the objectives and quality of social transformation processes. Thus, government activity should be analysed in the context of these processes. At the public hearings, Vira Nanivska, Director of the International Centre for Policy Studies, presented such an approach to evaluating the government activity. We offer below a summary of her presentation*

### Government introduces new democratic procedures

In the process of transition, government and society meet a number of challenges. Ukraine is usually criticised from the standpoint of human values, which have been widely adopted by developed democracies at the beginning of the 21st century. However, critics disregard that Ukrainian society is currently undergoes a profound transformation of its social system, and has only just made the first moves towards adopting the values of a democratic society.

In contrast to countries of Central Europe, post-Soviet countries have not widely established democratic and market institutions. The Ukrainian government inherited a democracy which had no democratic institutions. Ukraine does, however, have well-formed and functioning political institutions, including a constitution, a mechanism for democratic elections, and political parties legitimating the right of different stakeholders to be represented in the state government. However, there are no government or social institutions set up to ensure and protect democratic rights in between elections.

Before Ukraine declared independence, it had institutions serving the totalitarian system and guided by its single group of interests. By its nature, a totalitarian government can be neither accountable to the public nor transparent for other social groups. Now, civic and government institutions which have not been transformed, created a favourable environment for flowering corruption and continuing use of decision-making methods which are typical for totalitarian society.

The introduction of a new political system resulted in the legitimisation of all social interests. In turn, this has led to increased pressure on the government, with the competition for access to resources. Under conditions of limited resources, the government should develop tools for coordinating decisions. Moreover, today's authorities cannot resort to direct force control to ensure social order and discipline. Democratic methods of state governance require new professional knowledge, skills, and procedures, as well as new types of institutions.

Today, the Ukrainian government is learning and introducing new democratic procedures of the decision-making process. The Cabinet of Ministers has brought in new standards for documents used to adopt government resolutions. The new document formats ensure that different public interests, alternative decisions, and their effects on society are considered.

The government is developing procedures for consultation with different stakeholders regarding every government decision. Work on creating «e-government» has already begun. At the government web site, anybody can access the agendas of Cabinet of Ministers and government committee meetings. Further steps in this direction will allow the government to actively cooperate with citizens and improve the quality of public services.

### Budget policy—high priority in the transition process

In the process of transition, the role of the state budget has undergone significant changes. Formerly, the budget was the mechanism for reallocating resources between enterprises. Today, the state must

### Last week

**Privatisation in Ukraine: success or failure?** A seminar titled "Explicit and implicit results of privatisation" was held at the International Centre for Policy Studies on April 10. During the seminar, experts from the Centre for Economic Development (CED) presented the results of their research on privatisation outcomes. As CED experts stated, during the last years, there has been growing dissatisfaction with the outcomes of privatisation in Ukraine. According to one of the latest surveys (conducted in November 2000), the majority of respondents suggested that privatisation had worsened or had no impact on the economic situation. The main critique was of the privatisation model chosen in 1991 and supported legislatively in 1992—in particular, voucher privatisation.

The main critiques were as follows:

- The chosen model of privatisation was initially inefficient, did not incorporate international experience, and promoted the formation of "insider capitalism".
- The privatisation failed in terms of leading to significant improvements in economic, political, and social spheres.
- The privatisation did not introduce proper incentives for enterprise restructuring or increased economic efficiency.
- Privatisation failed due to the lack of proper infrastructure (above all, stock markets).

CED experts suggested that while analysing the effects of privatisation, the fact should be considered that Ukraine faced extremely unfavourable initial conditions for conducting market reforms in general, and privatisation in particular. The government plays a crucial role in any reform process, while Ukraine lacked developed government institutions or any kind of experience in state-building (as opposed, for example, to the Baltic States), and was burdened with a government machine similar to that inherited by Russia from the former USSR. Moreover, Ukraine had the world's highest level of industrial production centralisation.

CED experts suggest that the chosen model of privatisation, although subject to frequent changes, allowed the achievement of the following major goals:

- Ensuring sufficient public support for privatisation, given the lack of consensus regarding the need to perform market transformations in the economy;
- Relatively fast large-scale privatisation, given the lack of sufficient domestic capital and limited possibility of attracting foreign capital.

CED experts emphasized that the major political goal of privatisation was achieved —providing economic guarantees that would ensure the irreversibility of economic reforms. The experts did not support the idea of the complete failure of privatisation in terms of developing an effective economy. Taking into account the objective conditions for privatisation, the experts assured listeners that the outcomes of this process can be regarded as positive, since it allows us to establish the basis for further changes in ownership according to new principles.

## Next week

**Technical Assistance in Poland and Ukraine: a comparative analysis.** The International Centre for Policy Studies, in cooperation with Polish Institute of Public Affairs, will hold a seminar on "Technical Assistance in Poland and Ukraine: Achievements and Perspectives on the Way Towards the European Union" on 24 April, 2001. This seminar, with the participation of Polish public officials and NGO representatives, is a part of the "Ukraine's European Choice: Polish Experience in Reforms in the Context of European Integration" project. This project was made possible by support from the Freedom House Partnership for Reforms in Ukraine program, which is funded by United States Agency for International Development.

During the meeting, Ukrainian experts will learn about the Polish experience of effective use of EU technical assistance for reform implementation.

Participants will discuss the following questions:

- The role of technical assistance in Poland.
- Goals, objectives, spheres of activity, and actors.
- Mechanisms of control of technical assistance use.
- Institutional capacity building for effective use of EU technical assistance.
- Projects implemented in the frame of EU technical assistance.

*For an invitation to the seminar, please contact Olga Shumylo (e-mail: oshumylo@icps.kiev.ua, tel.: (380-44) 463-5967, 462-4938).*

(i) ensure the delivery of high-quality services which are important for social development, and (ii) provide help for vulnerable groups of society. Democratic governments are accountable to their citizens for the effective use of social resources. Clear budgets guarantee transparency and accountability of the government.

In 2000, procedures ensuring the transparency of the Ukrainian budget were introduced for the first time. All state funds are consolidated on the budget accounts. Revenues and expenditures of budget-funded agencies and organisations are now accounted by the State Treasury. Since the procedures for collegial adoption of resolutions by the Cabinet of Ministers have been introduced, the government has given up micromanaging public funds on a daily basis (so-called "manual management").

Since mutual offsetting of tax and budget debts were banned, cash revenues to the budget increased nearly by 45 percent. As a result, the government is able to fulfil its responsibilities regarding payment of social benefits and wages. The decisions, which were adopted over the last year, have put an end to budget grabbing and created the needed prerequisites for effective use of budget funds in the future.

The main effect of this budget policy is the weakened pressure of the budget on the economy, and increased resources of private sector.

## Evaluating government activity

Last year's changes in Ukraine laid the basis for creating effective institutions required by democracy and a market economy. For ten years, critics have been beating the wind, talking about wrong mentality and the lack of political will or charisma. Meantime, to build either a state or a small house, a clearly determined vision of the goal and daily hard work (not charisma) are needed to develop new social institutions—norms, procedures, and skills.

Our goal is a democratic society of free and economically self-supporting citizens. During the past year, firm steps towards introducing democratic principles in the budget process and government procedures of decision making were made. These steps should help Ukraine's citizens to answer the following question: What will this government policy imply for me? By means of this question, the public and the

government can establish relationships and develop mutual confidence. Citizens will make conscious choices when the effects of government policy are predictable and properly presented. Well-informed and active citizens are guarantors of a clear and effective government.

The main effects of the changes which have occurred in Ukraine are the following:

- **for the government:** developing a new democratic state machine with the capacity to engage in strategic planning and policy analysis. This machine has an institutional memory, and this will determine the directions of government activity in long run;
- **for the Verkhovna Rada:** emerging possibility for forming mechanisms of cooperation with the government and control of its activity;
- **for the President:** strengthening the government's ability to develop its action plan on the basis of the President's Edict. It means that the government has been transformed into a tool of long-term policy;
- **for technical assistance programs:** the directions of assistance granted to the government and methods of its productivity become clear;
- **for international community:** the government begins to work according to international standards. This provides Ukraine prospects for European integration.

## Recommendations for the government

In our opinion, the priority objectives of the Ukrainian government in the short run are the following:

- shifting from the policy of strategic breaks to systemic institutionalisation of Ukraine's European choice;
- carrying out comprehensive transformation of the government machine at all levels;
- reforming radically the methods of applying international technical assistance. ■

*Public hearings on "Public Report of the Government on Implementing the Action Plan 'Reforms for Prosperity' in 2000" were held on 12 April 2000. Co-organisers: Agency for Humanitarian Technologies, Institute of Civil Society, Institute of Politics, Institute of Reforms, International Centre for Policy Studies, Razumkov Ukrainian Centre for Economic and Political Studies.*

*ICPS Newsletter* is a weekly publication of the International Centre for Policy Studies delivered by electronic mail. To be included in the distribution list mail to: marketing@icps.kiev.ua.

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